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CITY OF LAGUNA BEACH
Laguna Beach, California

Single Audit Report on Federal Awards

Year Ended June 30, 2008

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CITY OF LAGUNA BEACH

Single Audit Report on Federal Awards

Year Ended June 30, 2008

TABLE OF CONTENTS

	<u>Page</u>
Report on Compliance and Other Matters and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Note to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7
Summary Schedule of Prior Audit Findings	8



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City Council
City of Laguna Beach, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 9, 2009 containing an explanatory paragraph disclosing that only the primary government financial statements were presented. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

City Council
City of Laguna Beach, California
Page Two

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be significant deficiencies material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters we reported to the management of the City in a separate letter dated January 9, 2009.

This report is intended solely for the information and use of the City Council and management of the City of Laguna Beach and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman McLean R.L.

Irvine, California
January 9, 2009



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City Council
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of Laguna Beach, California (City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Laguna Beach, California complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Laguna Beach as of and for the year ended June 30, 2008, and have issued our report thereon dated January 9, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the City Council, management of the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
January 9, 2009

CITY OF LAGUNA BEACH
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through from the State of California - Governor's Office of Emergency Services: Public Assistance Grant	97.036	FEMA-1585-DR-CA OES ID No. 059-39178	\$ 5,747,516 *
Passed through from the County of Orange: Domestic Preparedness Equipment Support	97.004	Not Available	<u>10,328</u>
Total - U.S. Department of Homeland Security			<u>5,757,844</u>
<u>U.S. Department of Transportation</u>			
Passed through from the Orange County Transportation Authority: Highway Planning and Construction: 1998 Transportation Equity Act for the 21st Century	20.205	STPLER-5270(007)	70,080
<u>U.S. Department of Housing and Urban Development</u>			
Direct assistance: Community Development Block Grant	14.218		15,000
<u>U.S. Environmental Protection Agency</u>			
Direct assistance: Surveys, Studies, Investigations, and Special Purpose Grant: Shaw's Cove Lift Station	66.606	XP-96939501-0	<u>877,419</u>
Total federal expenditures			<u>\$ 6,720,343</u>

* = Major Program

See Accompanying Note to the Schedule of Expenditures of Federal Awards.

CITY OF LAGUNA BEACH

Note to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

(1) **Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Laguna Beach, California (City) that are reimbursable under federal programs of federal financial assistance. For purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the Federal program.

(c) Subrecipients

There were no payments made to subrecipients during the year ended June 30, 2008.

CITY OF LAGUNA BEACH

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee with an explanatory paragraph disclosing that only the primary government financial statements were presented.
2. There were no material weaknesses in internal control over financial reporting.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over the major program of the auditee.
5. An unqualified report was issued by the auditors on compliance for its major program.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was: CFDA No. 97.036, U.S. Department of Homeland Security – Public Assistance Grant.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee did not meet the criteria established by OMB Circular A-133 to be classified as a low risk auditee for the year ended June 30, 2008 for major program determination purposes.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

There are no auditors' findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings required to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

CITY OF LAGUNA BEACH

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2008

Status of Prior Year Audit Findings:

- | | |
|---------|---|
| 2007-01 | Need for the City to obtain an actuarial report for its self-insurance program every year and adjust the claims payable balance to agree with the liability determined by the actuarial report. – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-02 | Need for a review of depreciation expense calculations performed by Springbook during the year end close process. – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-03 | Need for an independent review of cash receipts collected in the Police Department. – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-04 | Need for the Police Department to reconcile payments collected by Turbodata with the number of citations issued. Current year recommendation was made in separate letter to management dated January 9, 2009. |
| 2007-05 | Need to segregate certain duties within the accounts payable staff. – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-06 | Need to follow the City's current purchasing policy or consider revising existing policy. – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-07 | Need to develop and implement a formal ethics policy to be acknowledged and signed by each employee upon his or her hire date. Current year recommendation was made in separate letter to management dated January 9, 2009. |
| 2007-08 | Need to follow OMB standards requiring formal bid procedures for procurements greater than \$25,000 – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-09 | Need to verify that potential vendors are not suspended, debarred, or otherwise excluded – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-10 | Need for the City to require contractors and subcontractors submit a statement of compliance with Davis Bacon requirements – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |

CITY OF LAGUNA BEACH

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2008

Status of Prior Year Audit Findings (continued):

- | | |
|---------|--|
| 2007-11 | Need for the City to maintain an inventory listing of all equipment purchased with Federal funds as specified in the Common Rule – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |
| 2007-12 | Need to ensure that reimbursement requests are submitted timely in accordance with the deadlines provided by granting agencies – No exceptions were noted during the single audit for fiscal year ended June 30, 2008. |